

Executive Summary

The Retail Market Participants propose in these Comments an approach to assure that the Default procurement process and prices reflect the full costs of serving retail customers and therefore provide the correct price signals. Once a market-based policy and generation pricing mechanism has been designed for Default Service, any rate design issues that arise in implementing the new default generation pricing can be resolved. We recognize the concern about potential rate increases or disparities for customers who fall onto Default Service, relative to the below-market Standard Offer prices, and we are confident that rate measures can be designed to prevent or minimize any such inequities without constraining the design of the generation pricing mechanism for Default Service.

Vibrant retail electricity markets contribute to competitive wholesale markets by 1) contributing to dynamic efficiency by increasing the level of information conveyed to consumers by the price signals provided by wholesale markets, 2) reducing the potential for *de facto* vertical control, weakening the ability of wholesale players to pass price increases through to final consumers, and 3) contributing to the ability of new entrants to generation markets to obtain contracts for their output, thus improving the ability of new entrants to attract financing and therefore complete their projects. Lack of true retail competition means that wholesale prices provide inaccurate signals to wholesale market participants regarding the need for new capital investments, desired technologies, and optimum project size, leading to higher final prices to customers

Moreover vibrant retail competition creates additional benefits at the retail level by fostering innovation and technological progress, service improvements and increased efficiency. This has been demonstrated again and again in other deregulated markets. The electric market will be no different.

The Massachusetts Restructuring Act provides that default service prices should be no higher than the "average monthly market price." Since there are no discoverable retail market prices in this undeveloped market upon which to base a default service price, a cost-based proxy must be used.

Default Service costs should include:

- wholesale commodity costs, including energy (and associated transmission losses), operating reserves, AGC, Operable Capability, Installed Capability, ISO uplift and administrative charges associated with spot market purchases of these commodities;
- transmission charges (service charges, congestion charges, and ancillary service charges not included in commodity costs above);
- scheduling and control area services;
- distribution system losses;
- share of ISO-NE operating expenses;
- risk management premiums;
- load shape costs;

- commodity acquisition and portfolio management;
- working capital;
- taxes; and
- administration and customer services.

Many of the retail functions described above will be part of the competitive bid to provide default service power, thus, basing the default service price to customers on the utilities' cost for default service power would capture many of the necessary costs. However, there are other retail functions that will likely not be included in the bid to provide default service power, and which will necessarily be performed by the distribution company. The cost to perform these services should be included in the default service price.

To avoid double collection of the costs of services provided by the utility in distribution rates and again in the default service rate, the revenue collected for these services by the utility from default service can be credited back to customers.